



This document is one section from the EPA “Community-Based Watershed Management: Lessons from the National Estuary Program” handbook, published in February 2005. The reference number is EPA 842-B-05-003. You can find the entire document at <http://www.epa.gov/owow/estuaries/nepprimer>.

COMMUNITY-BASED WATERSHED MANAGEMENT

**Lessons from the
National Estuary
Program**

FEBRUARY, 2005

Appendix D: Pros and Cons of Becoming a Tax-Exempt Nonprofit

Reasons to Become a 501(c)(3) Tax-Exempt Nonprofit:

NEP-Specific Benefits

- Receive donations/Ability to fundraise
- Quicker decision-making for grants and contracts
- Flexibility
- Can be proactive
- Independence
- Visibility
- Ability to support or challenge agency partners
- Support from citizens
- Less encumbered by bureaucracy

General Benefits

- Tax exempt status
- Can apply for public or private grants
- Can act as neutral forums for stakeholders
- Can access private funds more easily as a nongovernmental organization
- Can be modified as required
- Greater flexibility in the use of paid or volunteer staff than governmental organizations
- Qualifies an organization for low postal rates, favorable pension plan status, and tax-sheltered annuity plans
- In some states, can also receive property tax and sales tax exemptions

Reasons Not to Become a 501(c)(3) Nonprofit:

NEP-Specific Drawbacks

- Lack of institutional framework for operational funding and staff support
- State agencies can still exercise influence if they are on the board of directors
- Not in the loop in state budget decision-making
- Incur new costs (e.g., increase in health insurance, liability insurance, computer maintenance, Internet, accounting, legal, corporate reporting, etc.)
- Vulnerable to economic downturns
- Competition with other nonprofits
- Politics of the job

General Drawbacks

- Harder to secure government appropriations and grants
- Cannot receive more than 90 percent of their income from an endowment
- Can only undertake limited lobbying activities
- Cannot exercise regulatory authority

Source: U.S. Environmental Protection Agency, Coastal Management Branch. Nonprofit NEPs: Looking Back on the Lessons They Learned. Washington: U.S. Environmental Protection Agency, 2002.

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